

NRA FREEDOM ACTION FOUNDATION

FINANCIAL STATEMENTS
as of December 31, 2017 and 2016
AND
REPORT THEREON

NRA FREEDOM ACTION FOUNDATION

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Report of Independent Auditors

RSM

To the Board of Directors
NRA Freedom Action Foundation

RSM US LLP

Report on the Financial Statements

We have audited the accompanying financial statements of NRA Freedom Action Foundation (FAF), which comprise the statements of financial position as of December 31, 2017 and 2016, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NRA Freedom Action Foundation as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

McLean, Virginia
March 7, 2018

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NRA FREEDOM ACTION FOUNDATION
STATEMENTS OF FINANCIAL POSITION
as of December 31, 2017 and 2016

ASSETS

	2017	2016
Cash	\$ 855,249	\$ 684,731
Contributions receivable	37,744	64,207
Due from affiliate	215,654	203,237
Split interest agreement	612,299	544,675
Total assets	\$ 1,720,946	\$ 1,496,850

LIABILITIES AND NET ASSETS

Liabilities		
Annuity payable	101,512	110,056
Total liabilities	101,512	110,056
Net assets:		
Unrestricted	468,651	280,347
Temporarily restricted	1,150,783	1,106,447
Total net assets	1,619,434	1,386,794
Total liabilities and net assets	\$ 1,720,946	\$ 1,496,850

The accompanying notes are an integral
part of these financial statements.

NRA FREEDOM ACTION FOUNDATION
STATEMENTS OF ACTIVITIES
For the years ended December 31, 2017 and 2016

	2017		
	Unrestricted	Temporarily Restricted	Total
Revenue and other support			
Contributions	\$ 931,099	\$ -	\$ 931,099
Change in present value of split interest agreement	-	67,624	67,624
Interest	379	-	379
Other income	23,967	-	23,967
Assets released from restrictions	23,288	(23,288)	-
Total revenue and other support	978,733	44,336	1,023,069
Expenses			
Program services	736,241	-	736,241
Administrative	44,486	-	44,486
Fundraising	9,703	-	9,703
Total expenses	790,430	-	790,430
Change in net assets	188,304	44,336	232,640
Net assets, beginning of year	280,347	1,106,447	1,386,794
Net assets, end of year	\$ 468,651	\$ 1,150,783	\$ 1,619,434

	2016		
	Unrestricted	Temporarily Restricted	Total
Revenue and other support			
Contributions	\$ 581,592	\$ 20,483	\$ 602,075
Change in present value of split interest agreement	-	33,386	33,386
Interest	200	-	200
Other income	12,942	-	12,942
Assets released from restrictions	-	-	-
Total revenue and other support	594,734	53,869	648,603
Expenses			
Program services	1,961,023	-	1,961,023
Administrative	15,477	-	15,477
Fundraising	17,728	-	17,728
Total expenses	1,994,228	-	1,994,228
Change in net assets	(1,399,494)	53,869	(1,345,625)
Net assets, beginning of year	1,679,841	1,052,578	2,732,419
Net assets, end of year	\$ 280,347	\$ 1,106,447	\$ 1,386,794

The accompanying notes are an integral
part of these financial statements.

NRA FREEDOM ACTION FOUNDATION
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 232,640	\$ (1,345,625)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Increase in present value of split interest agreement	(67,624)	(33,386)
Changes in assets and liabilities:		
Decrease in contributions receivable	26,463	38,092
Increase in due from affiliate	(12,417)	(102,166)
Decrease in accrued interest receivable	-	34
Decrease in accounts payable	-	(51)
Total adjustments	<u>(53,578)</u>	<u>(97,477)</u>
Net cash provided by (used in) operating activities	<u>179,062</u>	<u>(1,443,102)</u>
Cash flows from financing activities:		
(Decrease) increase in annuity payable	<u>(8,544)</u>	<u>71,753</u>
Net cash (used in) provided by financing activities	<u>(8,544)</u>	<u>71,753</u>
Net increase (decrease) in cash	170,518	(1,371,349)
Cash at beginning of year	<u>684,731</u>	<u>2,056,080</u>
Cash at end of year	<u>\$ 855,249</u>	<u>\$ 684,731</u>

The accompanying notes are an integral
part of these financial statements.

**NRA FREEDOM ACTION FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

The NRA Freedom Action Foundation (FAF) was organized on October 19, 2007, as a nonprofit organization to educate Americans with respect to their individual rights as citizens, with particular emphasis on the Second Amendment to the Constitution of the United States; engage in nonpartisan voter registration; and participate in any other activities relating to the Second Amendment as are appropriate.

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Classification of Net Assets

To identify the observance of limitations and restrictions placed on the use of the resources available to the FAF, the accounts of the FAF are maintained in two separate classes of net assets: unrestricted and temporarily restricted, based on the existence or absence of donor-imposed restrictions.

Unrestricted net assets represent resources that are not restricted by donor-imposed stipulations. They are available for support of the FAF's general operations.

Temporarily restricted net assets represent contributions and other inflows of assets whose use by the FAF is limited by donor-imposed stipulations. These restrictions are temporary in that they either expire by passage of time or can be fulfilled and removed by actions of the FAF pursuant to those stipulations.

Concentration of Credit Risk

The FAF maintains its cash accounts in one commercial bank located in Virginia. During the normal course of business, the FAF may have funds on deposit exceeding the insurance limits of the Federal Deposit Insurance Corporation. The FAF's policy is to deposit these funds in only financially sound institutions. Nevertheless, these deposits are subject to some degree of credit risk, although the FAF has not experienced any such losses.

Split Interest Agreement

The FAF is the beneficiary under a charitable remainder-unitrust agreement held by a third party. Under terms of the agreement, the FAF has the irrevocable right to receive a portion of the remaining trust assets upon termination of the trust. Split interest agreements are recorded as an asset based on the actuarially computed fair value and adjusted as of the end of each year. The difference between the amount received for the agreement and its actuarially computed value at each year end is recorded as changes in present value of split interest agreement. For the years ended December 31, 2017 and 2016, the receivable from the trust has been recorded at the present value of estimated cash flows and discounted at a rate of 2.33% and 2.45%, and incorporated a future life expectancy of 8 and 9 years, respectively.

NRA FREEDOM ACTION FOUNDATION NOTES TO FINANCIAL STATEMENTS

Annuity Payable

Donors have established and funded gift annuity contracts. Under terms of the contract, the FAF has the irrevocable right to receive the remaining contract assets upon termination of the contract. Amounts payable under annuity contracts are recorded as a liability based on the actuarially computed value at the time of the gift. The difference between the amount received for the contract and its actuarially computed liability is recorded as revenue. For both years ended December 31, 2017 and 2016, the discount rate applied ranged from 1.6% to 2.2%.

Revenue Recognition

Unconditional contributions, whether unrestricted or restricted, are recognized as revenue upon notification of the gift or pledge and classified in the appropriate net asset category. When the temporary restrictions specified by the donor are met by the FAF, temporarily restricted contributions are released from restriction and are recognized in the unrestricted net asset category.

Tax Status

The FAF is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income taxes. The FAF is not classified as a private foundation. The FAF has adopted new guidance on accounting for uncertainty in income taxes. Management evaluated the FAF's tax positions and concluded that the FAF had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

Pending accounting pronouncements

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier adoption is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied.

Subsequent Events

The FAF evaluated subsequent events through March 7, 2018, which is the date the financial statements were available to be issued.

2. FAIR VALUE MEASUREMENTS

The FAF follows the Financial Accounting Standards Board Accounting Standards Codification (the Codification) on *Fair Value Measurement*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined

**NRA FREEDOM ACTION FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

under the guidance as assumptions that market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy under the guidance are described below:

- Level 1 – Quoted market prices in active markets for identical assets or liabilities
- Level 2 – Observable market-based inputs or unobservable inputs corroborated by market data
- Level 3 – Unobservable inputs that are not corroborated by market data

To determine the appropriate levels, the FAF performs a detailed analysis of the assets that are subject to the fair value measurements. At each reporting period, all assets for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The tables below present the balances of assets measured at fair value on a recurring basis by level within the hierarchy:

As of December 31, 2017				
	Total	Level 1	Level 2	Level 3
Split interest agreement	\$ 612,299	\$ -	\$ -	\$ 612,299
Total	\$ 612,299	\$ -	\$ -	\$ 612,299

As of December 31, 2016				
	Total	Level 1	Level 2	Level 3
Split interest agreement	\$ 544,675	\$ -	\$ -	\$ 544,675
Total	\$ 544,675	\$ -	\$ -	\$ 544,675

The split interest agreement is classified as a Level 3 instrument, as there is no market for the FAF's interest in the trust. Further, the FAF's asset is the right to receive cash flows from the trust, not the assets of the trust themselves. Although the trust assets may be investments for which quoted prices in an active market are available, the FAF does not control those investments.

For assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3), *Fair Value Measurement* requires reconciliation of the beginning and ending balances, separately for each major category of assets and liabilities, except for derivative assets and liabilities, which may be presented net. The table

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NOTES TO FINANCIAL STATEMENTS**

below represents the reconciliation of the FAF's assets measured at fair value on a recurring basis using significant unobservable inputs:

	2017		2016
Split interest agreement, beginning of year	\$ 544,675	\$	511,289
Change in value	67,624		33,386
Split interest agreement, end of year	<u>\$ 612,299</u>	<u>\$</u>	<u>544,675</u>

3. TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2017, the FAF had temporarily restricted net assets of \$1,150,783. Of this amount, \$674,071 were restrictions that were temporary in that they expire by the passage of time, represented by the following: the present value of the split interest agreement received of \$544,675 and the subsequent increase in present value of \$67,624; and the net proceeds from the gift annuity agreement of \$61,772. In addition, \$476,712 is restricted to be used for legal defense costs.

As of December 31, 2016, the FAF had temporarily restricted net assets of \$1,106,477. Of this amount, \$606,447 were restrictions that were temporary in that they expire by the passage of time, represented by the following: the present value of the split interest agreement received of \$511,289 and the subsequent increase in present value of \$33,386; and the net proceeds from the gift annuity agreement of \$61,772. In addition, \$500,000 is restricted to be used for legal defense costs.

4. RELATED PARTIES

The FAF is affiliated with the National Rifle Association of America (NRA). The FAF has received certain benefits from this affiliation at no cost, among which are the use of office space and administrative services. Management has determined that the fair value of these benefits is minimal, and accordingly, no amounts are reflected in these financial statements.

The FAF is the beneficiary of gift annuity agreements. The assets comprising those annuities are held by The NRA Foundation (NRAF) in an agency capacity and pooled together with other NRAF investments. At December 31, 2017 and 2016, the FAF was due \$215,654 and \$203,237, respectively, from the NRAF for its gift annuity investments.